

Annual Report

of the

Commodity Credit Corporation
(Condensed Version)

Fiscal Year 1998

PREFACE

We believe this report will provide Congress and the public the assurance that the Commodity Credit Corporation's (CCC) financial policy, operations, and reports comply with the hierarchy of accounting principles and standards established for the Federal Government; and that CCC has effectively met its mission to stabilize, support, and protect farm prices and income, and to maintain balanced supplies and the orderly distribution of agricultural commodities.

CCC worked closely with the Office of Inspector General (OIG) for the United States Department of Agriculture (USDA) in the development of the Corporation's Annual Report of CCC for Fiscal Year 1998.

NOTE: This report is a condensed version of the original, which excludes additional disclosures such as the Overview and supplemental schedules. For a full copy of the report, please contact USDA-CCC.

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ANNUAL REPORT OF THE
COMMODITY CREDIT CORPORATION
(Condensed Version)
FISCAL YEAR 1998

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REPORT OF THE OFFICE OF INSPECTOR GENERAL

**TO: Board of Directors
Commodity Credit Corporation**

We were engaged to audit the accompanying Balance Sheet of the Commodity Credit Corporation (CCC) as of September 30, 1998, and the related Consolidating Statements of Net Costs and Changes in Net Position, and the Combined Statements of Financing and Budgetary Resources for the fiscal year (FY) then ended. These financial statements are the responsibility of CCC's management.

The Corporation was not able to provide sufficient and competent evidential matter, within the timeframes provided by the Department, to substantiate the financial statement line items "Fund Balance with Treasury," "Credit Program Receivables," "Resources Payable to Treasury," "U.S. Treasury Borrowings," "Estimated Loss on Credit Guarantees," and "Unexpended Appropriations" on the Balance Sheet, most items on the remaining principal statements, and CCC's Statement of Financing. The Secretary decided on January 14, 1999, that "USDA would comply with the Government Management Reform Act of 1994 requirements and submit its audited consolidated financial statements to the Office of Management and Budget (OMB) by March 1, 1999."

Since we were not able to apply alternate auditing procedures within the timeframe specified to satisfy ourselves as to the value of assets, liabilities, equity, and related revenues and expenses of the CCC, due to the Secretary's decision to submit U.S. Department of Agriculture's (USDA) audited consolidated financial statements by March 1, 1999, the scope of our work was insufficient to enable us to express, and we do not express, an opinion on CCC's FY 1998 financial statements.

As discussed in the notes to the financial statements, the Department implemented Statement of Federal Financial Accounting Standards Nos. 6, 7, and 8, which became effective for fiscal years beginning after September 30, 1997.

Our audit was conducted for the purpose of forming an opinion on CCC's financial statements taken as a whole. The information in the Overview and Required Supplementary Information sections represents supplementary information required by OMB Bulletin No. 97-01. "Form and Content Agency Financial Statements." We have considered whether this information is materially inconsistent with the principal financial statements. Such information has not been subjected to auditing procedures, and accordingly, we express no opinion on it.

As discussed in Notes 6 and 7, CCC provides direct credits and credit guarantees to foreign countries receiving exported agricultural commodities. The allowance for losses associated with these credits and guarantees is considered adequate by management to provide for estimated losses and is based on CCC's evaluation of the portfolios taking into consideration a variety of factors including, repayment status, assessment of future risks, and worldwide economic and political conditions. Future economic and political conditions could affect the ultimate collection of these credits and credit guarantees.

We have also issued a report on CCC's internal control structure which cites five material weaknesses and a report on CCC's compliance with laws and regulations that includes three material instances of noncompliance.

This report is intended for the information of the management of the CCC, OMB and Congress. However, this report is a matter of public record and its distribution is not limited.



ROGER C. VIADERO
Inspector General

January 14, 1999

Exhibit A**Commodity Credit Corporation
Balance Sheet****As of September 30, 1998
(Dollars in Millions)****Entity Assets:****Federal Assets:**

Fund Balance with Treasury (Note 2)	\$ 2,319
Accounts Receivable (Note 3)	152
Advances	56
Receivables from Appropriations (Note 4)	<u>1,566</u>
Total Federal Assets	4,093

Accounts Receivable, Net (Note 3)	45
Domestic Loans, Net (Note 5)	2,282
Credit Program Receivables, Net (Note 6)	6,971
Other Foreign Receivables, Net (Note 7)	380
Advances	5
Cash (Note 8)	78
Commodity Inventories, Net (Note 9)	345
Property and Equipment, Net (Note 10)	<u>87</u>

Total Assets	<u>\$ 14,286</u>
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Exhibit A**Commodity Credit Corporation
Balance Sheet, Continued****As of September 30, 1998
(Dollars in Millions)****Liabilities Covered by Budgetary Resources:**

Federal Liabilities:

Accounts Payable	\$ 163
Resources Payable to Treasury (Note 11)	6,683
U.S. Treasury Borrowings (Note 12)	18,185
Accrued Program Liabilities (Note 13)	5
Deposit and Trust Liabilities (Note 14)	<u>624</u>
Total Federal Liabilities	25,660

Accounts Payable	111
Accrued Program Liabilities (Note 13)	1,946
Estimated Loss on Credit Guarantees (Note 6)	2,814
Deposit and Trust Liabilities (Note 14)	467
Other Liabilities (Note 15)	<u>44</u>

Total Liabilities Covered by Budgetary Resources 31,042

Liabilities Not Covered by Budgetary Resources:

Accrued Leave and Federal Employees Compensation Act Liability (Note 13)	<u>58</u>
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Total Liabilities \$ 31,100

Contingencies and Commitments (Note 16)

Net Position (Note 17)

Unexpended Appropriations	\$ 1,373
Capital Stock	100
Cumulative Results of Operations	<u>(18,287)</u>
Total Net Position	<u>(16,814)</u>
Total Liabilities and Net Position	<u>\$ 14,286</u>

Exhibit B

**Commodity Credit Corporation
Consolidating Statement of Changes in Net Position**

**As of September 30, 1998
(Dollars in Millions)**

	<u>Commodity Operations</u>	<u>Income Support Programs</u>	<u>Conservation Reserve Program</u>	<u>Foreign Programs</u>	<u>Other</u>	<u>Reimbursement for Prior Year Losses</u>	<u>Intra-Agency Eliminations</u>	<u>Consolidated Total</u>
Net Cost of Operations	\$ (419)	\$ (7,737)	\$ (1,874)	\$ (3,054)	\$ (390)	\$	\$	\$ (13,474)
Financing Sources:								
Appropriations Used			24	1,904	72	784		2,784
Other Nonexchange Revenue		75						75
Imputed Financing	40	491	128	8	120			787
Transfers Out					(61)			(61)
Net Results of Operations	(379)	(7,171)	(1,722)	(1,142)	(259)	784	0	(9,889)
Net Results Not Affecting Net Position				1,066				1,066
Prior Period Adjustments (Note 19)						(9,411)		(9,411)
Net Change in Cumulative Results of Operation	(379)	(7,171)	(1,722)	(76)	(259)	(8,627)	0	(18,234)
Increase (Decrease) in Unexpended Appropriations			(24)	(156)	(426)			(606)
Change in Net Position	(379)	(7,171)	(1,746)	(232)	(685)	(8,627)	0	(18,840)
Net Position - Beginning of Fiscal Year	100		98	1,327	501			2,026
Net Position - As of September 30, 1998	(279)	(7,171)	(1,648)	1,095	(184)	(8,627)	0	(16,814)

Exhibit C

Commodity Credit Corporation
Consolidating Statement of Net Costs

As of September 30, 1998
(Dollars in Millions)

	Commodity Operations	Income Support Programs	Conservation Reserve Program	Foreign Programs	Other	Combined Total	Intra-Agency Eliminations	Consolidated Total
Net Program Costs:								
Intra-governmental Costs	\$ 453	\$ 211	\$ 50	\$ 132	\$ 25	\$ 871	\$ (432)	\$ 439
Public:								
Grants and Payments								
Grants and Payments		6,920	1,696	859	115	9,590		9,590
Credit Program Subsidy				1,145		1,145		1,145
Commodity Program Costs	214	25				239		239
Other Program Costs	205	829	128	1,574	195	2,931		2,931
Total Program Production Costs	872	7,985	1,874	3,710	335	14,776	(432)	14,344
Less Earned Revenue (Note 20)	(453)	(248)		(656)	(10)	(1,367)	432	(935)
Excess Costs over Revenues	419	7,737	1,874	3,054	325	13,409	0	13,409
Nonproduction and Nonrecurring Items:								
Acquisition Cost of Stewardship					64	64		64
Land (Gain)/Loss on Disposition of Assets					1	1		1
Net Cost of Operations	<u>\$ 419</u>	<u>\$ 7,737</u>	<u>\$ 1,874</u>	<u>\$ 3,054</u>	<u>\$ 390</u>	<u>\$ 13,474</u>	<u>\$ 0</u>	<u>\$ 13,474</u>

Exhibit D

Commodity Credit Corporation
Combining Statement of Budgetary Resources (Note 21)

As of September 30, 1998
(Dollars in Millions)

	<u>Revolving Fund</u>	<u>P.L. 480 Programs</u>	<u>Export Credit Guarantees</u>	<u>Other</u>	<u>Combined Total</u>
Budgetary Resources:					
Budget Authority	\$ 15,099	\$ 1,138	\$ 411	\$ 3	\$ 16,651
Unobligated Balances - Beginning of Period	345	156	1,228	136	1,865
Spending Authority from Offsetting Collections	9,663	775	735	3	11,176
Adjustments	(4,225)			9	(4,216)
Total Budgetary Resources	<u>\$ 20,882</u>	<u>\$ 2,069</u>	<u>\$ 2,374</u>	<u>\$ 151</u>	<u>\$ 25,476</u>
Status of Budgetary Resources:					
Obligations Incurred	\$ 20,882	\$ 1,346	\$ 382	\$ 88	\$ 22,698
Unobligated Balances - Available		185	1,715	30	1,930
Unobligated Balances - Not Available		538	277	33	848
Total Status of Budgetary Resources	<u>\$ 20,882</u>	<u>\$ 2,069</u>	<u>\$ 2,374</u>	<u>\$ 151</u>	<u>\$ 25,476</u>
Outlays:					
Obligations Incurred	\$ 20,882	\$ 1,346	\$ 382	\$ 88	\$ 22,698
Less: Spending Authority from Offsetting Collections and Adjustments	(9,686)	(775)	(735)	(12)	(11,208)
Obligated Balance, Net - Beginning of Period	559	714		166	1,439
Less: Obligated Balance, Net - End of Period	(1,461)	(823)		(140)	(2,424)
Total Outlays	<u>\$ 10,294</u>	<u>\$ 462</u>	<u>\$ (353)</u>	<u>\$ 102</u>	<u>\$ 10,505</u>

Exhibit E

**Commodity Credit Corporation
Combined Statement of Financing**

**As of September 30, 1998
(Dollars in Millions)**

Resources Used to Finance Operations:

Budgetary:

Budgetary Resources Obligated for Items to be Received or Provided to Others
Less: Offsetting Collections, Recoveries of Prior-Year Authority, and Changes in
Unfilled Customer Orders

Net Budgetary Resources Used to Finance Operations

Non-budgetary:

Commodity Inventory Donated
Cost Incurred by Others Without Reimbursement
Other Non-budgetary Resources
Net Non-budgetary Resources Used to Finance Operations

Total Resources Used to Finance Operations

Resources Used to Fund Items Not Part of the Net Cost of Operations:

Increase or (Decrease) in Budgetary Resources Obligated to Order Goods or
Services Not Yet Received or Benefits Not Yet Provided
Budgetary Offsetting Collections Not Increasing Earned Revenue or Decreasing Expense
Less: Adjustments Made to Compute Net Budgetary Resources Not Affecting Net Cost
of Operations

Resources Funding Expenses Recognized in Prior Periods
Resources Financing the Acquisition of Assets or Liquidation of Liabilities

Total Resources Used to Fund Items Not Part of the Net Cost of Operations

Resources Used to Finance Net Cost of Operations

	<u>Revolving Fund</u>	<u>P.L. 480 Programs</u>	<u>Export Credit Guarantees</u>	<u>Other</u>	<u>Combined Total</u>
\$ 20,882	\$ 20,882	\$ 1,346	\$ 382	\$ 88	\$ 22,698
(9,686)	(9,686)	(775)	(735)	(12)	(11,208)
11,196	11,196	571	(353)	76	11,490
124	124				124
787	787	5			792
(2)	(2)				(2)
909	909	5	0	0	914
12,105	12,105	576	(353)	76	12,404
(318)	(318)	(149)	(42)	10	(499)
8,888	8,888	509	226		9,623
(3,237)	(3,237)	(31)			(3,268)
(1,600)	(1,600)				(1,600)
(7,742)	(7,742)	(168)	(16)		(7,926)
(4,009)	(4,009)	161	168	10	(3,670)
8,096	8,096	737	(185)	86	8,734

Exhibit E

Commodity Credit Corporation
Combined Statement of Financing, Continued

As of September 30, 1998
(Dollars in Millions)

	<u>Revolving Fund</u>	<u>P.L. 480 Programs</u>	<u>Export Credit Guarantees</u>	<u>Other</u>	<u>Combined Total</u>
Components of Net Cost of Operations Not Requiring or Generating Resources					
During the Reporting Period:					
Expenses or Earned Revenue Related to the Disposition of Assets or Liabilities, or Allocation of Their Cost Over Time	944	177	1,538		2,659
Expenses Which Will Be Financed With Budgetary Resources Recognized in Future Periods	1,577	42	695		2,314
Other Net Cost Components Not Requiring or Generating Resources During the Reporting Period (Note 22)	<u>(204)</u>	<u>(29)</u>			<u>(233)</u>
Total Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period	<u>2,317</u>	<u>190</u>	<u>2,233</u>	<u>0</u>	<u>4,740</u>
Net Cost of Operations	<u>\$ 10,413</u>	<u>\$ 927</u>	<u>\$ 2,048</u>	<u>\$ 86</u>	<u>\$ 13,474</u>

Schedule A

Commodity Credit Corporation
Supporting Schedule to the Statement of Net Costs

As of September 30, 1998
(Dollars in Millions)

Net Program Costs:	Inventory Operations	Farm Income Support Program	Production Flexibility Contracts	Conservation Reserve Program	P.L. 480 Programs	Export Credit Guarantees	Other Foreign Programs	Emergency Assistance Programs	Other Conservation Programs	Unallocated Expenses	Combined Total
Intra-governmental Costs	\$ 453	\$ 43	\$ 168	\$ 50	\$ 47	\$ 83	\$ 2	\$	\$ 8	\$ 17	\$ 871
Public:											
Grants and Payments		1,263	5,657	1,696	757	935	102	(45)	160		9,590
Credit Program Subsidy					210						1,145
Commodity Program Costs	214	25									239
Other Program Costs	205	473	356	128	192	1,374	8	48	73	74	2,931
Total Program Production Costs	872	1,804	6,181	1,874	1,206	2,392	112	3	241	91	14,776
Less Earned Revenue	(453)	(248)			(279)	(344)	(33)			(10)	(1,367)
Excess Costs over Revenues	419	1,556	6,181	1,874	927	2,048	79	3	241	81	13,409
Nonproduction and Nonrecurring Items:											
Acquisition Cost of Stewardship Land									64	1	64
(Gain)/Loss on Disposition of Assets											
Net Cost of Operations	\$ 419	\$ 1,556	\$ 6,181	\$ 1,874	\$ 927	\$ 2,048	\$ 79	\$ 3	\$ 305	\$ 82	\$ 13,474

COMMODITY CREDIT CORPORATION

Notes to Financial Statements September 30, 1998

Note 1 - Significant Accounting Policies

These financial statements have been prepared to report the financial position and results of operations of the Commodity Credit Corporation (CCC). CCC's financial statements are presented in accordance with the Office of Management and Budget (OMB) Bulletin 97-01 (as amended), Form and Content of Agency Financial Statements. These statements are different from the financial reports, also prepared by CCC pursuant to OMB directives, that are used to monitor and control CCC's use of budgetary resources.

Reporting Entity

CCC is a Federal corporation operating within and through the United States Department of Agriculture (USDA). CCC's statutory authority for its operations is found in the CCC Charter Act 15 U.S.C. 714. It is managed by a Board of Directors, subject to the general supervision and direction of the Secretary of Agriculture, who is an ex-officio director and chairperson of the Board. The members of the Board and the Corporation's Officers are officials of USDA.

CCC's primary responsibilities are to: (a) stabilize, support, and protect farm income and prices; (b) assist in the maintenance of balanced and adequate supplies of agricultural commodities; and (c) facilitate the orderly distribution of those commodities.

CCC has no assigned personnel. CCC's programs are administered through and by the Farm Service Agency (FSA), the Agricultural Marketing Service (AMS), the Natural Resources Conservation Service (NRCS) and the Foreign Agricultural Service (FAS). The accompanying financial statements include an allocation, as appropriate, of salaries and expenses incurred by these agencies.

Basis of Accounting

The accounting principles and standards applied in preparing the financial statements and described in this note are in accordance with the following hierarchy of accounting principles:

- (1) individual standards agreed to by the Director of OMB, the Controller General, and the Secretary of the Treasury and published by OMB and the General Accounting Office;
- (2) interpretations related to the Statements of Federal Financial Accounting Standards issued by OMB in accordance with the procedures outlined in OMB Circular A-134, "Financial Accounting Principles and Standards";
- (3) requirements contained in OMB's Form and Content Bulletin 97-01 (as amended); and
- (4) accounting principles published by other authoritative standard-setting bodies and other authoritative sources: (a) in the absence of other guidance not provided for above; and (b) if the use of such accounting standards improves the meaningfulness of the financial statements (e.g., Generally Accepted Accounting Principles).

Notes to the Financial Statements

Transactions are recorded on an accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. All interfund balances and transactions have been eliminated.

Revenues and Other Financing Sources

CCC operations are financed through appropriated and revolving funds, as well as an authority to borrow from the U.S. Treasury. Capital stock in the amount of \$100 million, on which the Corporation pays interest, is held by Treasury. CCC receives direct appropriations for export promotion programs and special activities. Permanent indefinite appropriation authority exists for the foreign assistance programs to cover additional disbursements associated with direct credits and credit guarantees. Receipts flowing through CCC's revolving fund include proceeds from the sale of CCC commodities, loan repayments, interest income, and various program fees.

Fund Balance with Treasury

Most CCC disbursements are made by either checks or electronic payments drawn against its account at Treasury. Generally, disbursements and receipts for which CCC is responsible are processed by the Federal Reserve Banks (FRB), their branches, and the U.S. Treasury, which report activity to the Corporation.

Commodity Loans

CCC makes both recourse and nonrecourse loans to producers on designated agricultural commodities. In the case of nonrecourse loans, producers have the option to: (a) repay the principal plus interest; (b) for certain announced commodities, repay principal at the market rate (and no interest); or (c) at maturity, forfeit the commodity in satisfaction of the loan. These loans are not subject to accounting and reporting requirements of the Federal Credit Reform Act of 1990.

Interest is accrued on the unpaid principal balance of domestic commodity loans, and a related allowance is established.

Commodity loans are reported net of an allowance for doubtful accounts, which reduces the loans to net realizable value. The allowances are based on the estimated loss on ultimate commodity disposition, when it is more likely than not that the loans will not be totally collected. The allowance also takes into account losses anticipated on the disposition of inventory acquired through loan forfeiture. When forfeited commodities are subsequently disposed of, any loss on the disposition is realized as either a cost of sales or a donation, depending on the type of disposition.

Tobacco loans are currently protected by the No Net Cost Tobacco Program Act of 1982, as amended, which requires tobacco cooperative member-farmers to pay CCC a No Net Cost Assessment (NNCA) on each pound of tobacco brought to market. Additionally, importers and purchasers of flue-cured and burley tobacco are required to pay an NNCA on each pound of tobacco imported or purchased. These funds earn interest and are applied against future loan losses of the respective tobacco cooperative.

In addition, the Federal Agriculture Improvement and Reform Act of 1996 (1996 Act) provides for special assessments from producers and handlers to cover any losses on peanut loans.

Notes to the Financial Statements

Credit Program Receivables

Credit program receivables consist of direct credits extended under P.L. 480 (Title I, Food for Progress, and Enterprise for the Americas) and guaranteed payments made under the Export Credit Guarantee programs. These receivables are subject to Credit Reform requirements.

These receivables, both pre- and post-Credit Reform, are recognized as assets at the present value of their estimated net cash inflows. The difference between the outstanding principal of these credit receivables and the present value of their net cash inflows is recognized as an allowance.

Capitalized Interest on Rescheduled Credits

Rescheduling agreements frequently allow CCC to add uncollected interest to the principal balance of foreign credit receivables (capitalized interest). In such circumstances, CCC records an allowance to reduce the receivable, including the capitalized interest, to the net present value of future cash flows. Interest income is recognized only when, in management's judgment, debtors have demonstrated the ability to repay the debt in the normal course of business.

Commodity Inventories

Inventories are recorded at acquisition cost plus processing and packaging costs incurred after acquisition. Acquisition cost is the amount of the loan settlement, excluding interest, or the amount of the purchase settlement price. Since loan rates are established by statute, inventory acquisitions are usually at a cost higher than market value.

Generally, disposition costs are based on the average cost of the commodity in inventory at the end of the previous month. However, in other cases, the cost is computed on the basis of actual (historical) cost of the commodity. This is prevalent with the following: (a) dispositions from peanut price support inventory; (b) simultaneous acquisition and disposition for commodity export programs; and (c) dispositions of commodities previously pledged as price support loan collateral which are acquired by CCC during the exchange of commodity certificates.

Commodity inventories held under price support and stabilization programs are reported at the lower of cost or net realizable value through use of a commodity valuation allowance. This allowance is based on the estimated loss on commodity disposition, including donations (for which a 100 percent allowance is established).

Property and Equipment

Property and equipment acquired are recorded at the acquisition cost plus any expenditures, such as freight, installation or testing, related to placing the asset into service. Purchases of personal property valued at \$5,000 or more, with a useful life greater than 2 years, are capitalized. All other purchases of property or equipment are fully expensed in the year of acquisition. Major equipment purchases used directly in the operation of programs are depreciated to an estimated salvage value on a straight-line basis over a 4- to 15-year period.

Notes to the Financial Statements

Liabilities

CCC recognizes a liability in one of two ways, depending on the type of transaction. If an exchange transaction occurs (i.e., when CCC receives goods or services in return for a promise to provide money or other resources in the future), a liability is recognized in the period in which the exchange occurred. If a nonexchange transaction occurs (i.e., government programs where there is a one-way flow of resources or promises), a liability is recognized for any unpaid amounts due as of the reporting date.

Interest Income on Direct Credits and Credit Guarantees

Interest income is accrued on both performing and non-performing credits and credit guarantee receivables as it is earned. A non-performing direct credit or credit guarantee receivable is defined as a repayment schedule under a credit agreement, with an installment payment in arrears more than 90 days. For those receivables associated with direct credits and credit guarantees which are non-performing, interest is not recognized as income; rather, it is deferred until the interest is received or the receivable is returned to performing status.

Estimated Loss on Credit Guarantees

CCC records a liability and charges an expense to the extent, in management's estimate, CCC will be unable to recover claim payments under the Export Credit Guarantee programs. This liability represents both pre-Credit Reform and post-Credit Reform activity.

Conservation Programs

As a result of the 1996 Act, CCC has assumed responsibility for funding certain conservation programs which are administered by other agencies. For example, the Conservation Reserve Program (CRP) is carried out by FSA and the Wetlands Reserve Program (WRP), Wildlife Habitat Incentives Program (WHIP), Farmland Protection Program (FPP), and Environmental Quality Incentives Program (EQIP) are administered by NRCS. In order to ensure completeness of reporting for these programs, FSA and NRCS residual activity funded by appropriations prior to the 1996 Act are presented in these statements.

Note 2 - Fund Balance with Treasury

Fund balances with Treasury as of September 30, 1998, are shown by fund as follows:

	(In Millions)
	<u>1998</u>
Revolving Funds	\$ 584
Appropriated Funds	<u>1,735</u>
Total Fund Balance with Treasury	<u>\$ 2,319</u>

CCC is authorized to use in the conduct of its business all funds appropriated, transferred, or allocated to it.

Notes to the Financial Statements

Differences exist between CCC's records and cash, and what was reported by Treasury and in the President's Budget. These differences are primarily due to variations in the timing of document processing, resulting in a Treasury balance \$80 million lower than that recorded in CCC's books at September 30, 1998.

Note 3 - Accounts Receivable

Accounts receivable as of September 30, 1998, are as follows:

	(In Millions)
	<u>1998</u>
<u>Federal:</u>	
Treasury and Other Federal Agencies	<u>\$ 152</u>
<u>Non-Federal:</u>	
Claims Originating in State Offices	\$ 85
Interest Receivable	43
Producer Overpayments on CCC Programs	41
Other	17
Other Claims	<u>3</u>
Subtotal	189
Less Offset in Deferred Receivables	<u>(39)</u>
Subtotal	150
Less Allowance for Doubtful Accounts	<u>(105)</u>
Total Non-Federal Accounts Receivable, Net	<u>\$ 45</u>

Non-Federal receivables are adjusted by a valuation allowance, based on historical collection and write-off information, which reduces the receivables to their net realizable value.

Notes to the Financial Statements

The changes in the allowance for doubtful accounts for the fiscal year ended September 30, 1998, are as follows:

	(In Millions)
	<u>1998</u>
Allowance - Beginning of Fiscal Year	\$ 128
Less Charge-offs	(35)
Plus Provision for Doubtful Accounts	<u>12</u>
Allowance - End of Fiscal Year	<u>\$ 105</u>

Note 4 - Receivables from Appropriations

As indicated in Note 1, under the terms of Credit Reform, there is a permanent indefinite appropriation authority to obtain appropriated funding to finance the cost of credit or re-estimates of the subsidy allowance. At September 30, 1998, CCC's estimated losses on foreign direct credits and credit guarantees increased by \$1,566 million. A receivable from the indefinite appropriation was recorded accordingly.

Note 5 - Domestic Loans, Net

CCC's domestic loan programs are exempt from the provisions of Credit Reform. Domestic loans receivable, by commodity, at September 30, 1998, are as follows:

	(In Millions)
<u>Commodity</u>	<u>1998</u>
Tobacco	\$ 1,109
Wheat	619
Corn	211
Soybeans	114
Rice	75
Cotton	40
Other Feed Grains	37
Other	<u>14</u>
Total Domestic Loans	2,219
Accrued Interest Receivable	207
Less Allowance for Losses	<u>(144)</u>
Total Domestic Loans, Net	<u>\$ 2,282</u>

Notes to the Financial Statements

Note 6 - Credit Program Receivables, Net

Credit program receivables consist of direct credits under P.L. 83-480 (P.L. 480) and claims against defaulting obligors whose obligations benefitted from credit guarantees (non-rescheduled and rescheduled claims) under the Export Credit Guarantee programs, as well as the associated interest. Credit program receivables as of September 30, 1998, are as follows:

	(In Millions)			
	Credit Receivable, <u>Gross</u>	Interest Receivable, <u>Gross</u>	Allowance for Uncollectible <u>Accounts</u>	Credit Program Receivable, Net
P.L. 480 Title I	\$ 10,678	\$ 139	\$ (7,003)	\$ 3,814
Enterprise for the Americas	63	0	(12)	51
Food for Progress	508	11	(500)	19
Export Credit Guarantee Programs	<u>6,724</u>	<u>71</u>	<u>(3,708)</u>	<u>3,087</u>
Total Credit Program Receivables	<u>\$ 17,973</u>	<u>\$ 221</u>	<u>\$ (11,223)</u>	<u>\$ 6,971</u>

P.L. 480 direct credits outstanding that were obligated prior to fiscal year 1992 and related interest receivable as of September 30, 1998, are as follows:

	(In Millions)			
	Credit Receivable, <u>Gross</u>	Interest Receivable, <u>Gross</u>	Allowance for Uncollectible <u>Accounts</u>	Credit Program Receivable, Net
P.L. 480 Title I	<u>\$ 9,144</u>	<u>\$ 116</u>	<u>\$ (5,767)</u>	<u>\$ 3,493</u>

P.L. 480 direct credits that were obligated after fiscal year 1991 and related interest receivable outstanding as of September 30, 1998, are as follows:

	(In Millions)			
	Credit Receivable, <u>Gross</u>	Interest Receivable, <u>Gross</u>	Allowance for Uncollectible <u>Accounts</u>	Credit Program Receivable, Net
P.L. 480 Title I	\$ 1,534	\$ 23	\$ (1,236)	\$ 321
Enterprise for the Americas	63	0	(12)	51
Food for Progress	<u>508</u>	<u>11</u>	<u>(500)</u>	<u>19</u>
Total	<u>\$ 2,105</u>	<u>\$ 34</u>	<u>\$ (1,748)</u>	<u>\$ 391</u>

Notes to the Financial Statements

Defaults on credit guarantees made prior to fiscal year 1992 and related interest receivable as of September 30, 1998, are as follows:

	(In Millions)			
	Credit Receivable, <u>Gross</u>	Interest Receivable, <u>Gross</u>	Allowance for Uncollectible <u>Accounts</u>	Credit Program Receivable, Net
Export Credit Guarantee Programs	<u>\$ 5,418</u>	<u>\$ 48</u>	<u>\$ (3,054)</u>	<u>\$ 2,412</u>

Defaults on credit guarantees made after fiscal year 1991 and related interest receivable as of September 30, 1998, are as follows:

	(In Millions)			
	Credit Receivable, <u>Gross</u>	Interest Receivable, <u>Gross</u>	Allowance for Uncollectible <u>Accounts</u>	Credit Program Receivable, Net
Export Credit Guarantee Programs	<u>\$ 1,306</u>	<u>\$ 23</u>	<u>\$ (654)</u>	<u>\$ 675</u>

The change in the allowance for uncollectible accounts for the fiscal year ended September 30, 1998, is as follows:

	(In Millions)
	<u>1998</u>
Allowance - Beginning of Fiscal Year	\$ 9,068
Less Change in Deferred Liability for Prepaid Amounts Received	(8)
Plus Provision for Doubtful Accounts	<u>2,163</u>
Allowance - End of Fiscal Year	<u>\$ 11,223</u>

As of September 30, 1998, credit guarantees outstanding are as follows:

	(In Millions)	
	Outstanding Principal, <u>Face Value</u>	Outstanding Principal <u>Guaranteed *</u>
Export Credit Guarantee Programs	<u>\$ 4,530</u>	<u>\$ 4,290</u>

* Represents a contingent liability for amounts owed by foreign banks to exporters participating in the program.

Notes to the Financial Statements

The liability for credit guarantees as of September 30, 1998, is as follows:

	(In Millions)		
	<u>Liability for Losses on Pre-1992 Guarantees</u>	<u>Liabilities for Post -1991 Loan Guarantees</u>	<u>Total Liabilities for Credit Guarantees</u>
Export Credit Guarantee Programs	<u>\$ *</u>	<u>\$ 2,814</u>	<u>\$ 2,814</u>

* Less than \$500 thousand

For the fiscal year ended September 30, 1998, subsidy expense for direct credits is as follows:

	(In Millions)
P.L. 480 Title I	\$ 88
Enterprise for the Americas	(6)
Food for Progress	<u>128</u>
Total P.L. 480 Program Subsidy	<u>\$ 210</u>

Subsidy expenses for current-year disbursements of post-1991 direct credits for fiscal year 1998 are as follows:

	(In Millions)		
	<u>Interest Differential *</u>	<u>Defaults</u>	<u>Total</u>
P.L. 480 Title I	<u>\$ 67</u>	<u>\$ 90</u>	<u>\$ 157</u>

* Represents the difference between the interest rate charged to borrowers and the interest rate paid on CCC's Treasury borrowings.

For the fiscal year ended September 30, 1998, subsidy re-estimates* on direct credits are as follows:

	(In Millions)
P.L. 480 Title I	\$ (69)
Enterprise for the Americas Programs	(6)
Food for Progress	<u>128</u>
Total Direct Credit Re-estimates	<u>\$ 53</u>

* Includes re-estimates calculated for financial statement purposes for cumulative disbursements for all cohorts. Technical re-estimates for budget purposes are calculated separately.

Notes to the Financial Statements

Subsidy expense for credit guarantees for fiscal year 1998 is \$935 million. As part of the calculation process associated with CCC's budget estimates for fiscal year 1998, a portion of the program assumptions used by the Corporation was not updated. The use of such assumptions resulted in the recording of an unreliable amount of subsidy expense. However, the subsidy expense amount reported in the Statement of Net Cost was adjusted by the re-estimate calculation process performed at fiscal yearend. This resulted in the reporting of an accurate amount. CCC has corrected the program assumptions used in the preparation of its fiscal year 2000 budget process.

Subsidy expenses for current-year disbursements of credit guarantees made after fiscal year 1991 for the fiscal year ended September 30, 1998, are as follows:

	(In Millions)		
	<u>Defaults</u>	<u>Fees</u>	<u>Total</u>
Export Credit Guarantee Programs	<u>\$ 441</u>	<u>\$ (23)</u>	<u>\$ 418</u>

For the fiscal year ended September 30, 1998, subsidy re-estimates on credit guarantees are \$517 million. This amount includes re-estimates calculated for financial statement purposes for cumulative disbursements for all cohorts. Technical re-estimates for budget purposes are calculated separately.

The principal balance of CCC direct credit and credit guarantee receivables in a non-performing status at September 30, 1998, totaled \$3,997 million. If interest had been reported on these non-performing receivables, instead of reported only to the extent of the collections received, interest income would have increased by \$74 million to a total of \$965 million in fiscal year 1998. During the entire delinquency, if interest had been reported on these non-performing receivables, instead of reported only to the extent of the collections received, interest income would have increased by \$631 million.

Direct credit and credit guarantee receivables under rescheduling agreements as of September 30, 1998, were \$7,764 million. Foreign credit rescheduling is negotiated through the Paris Club.

Notes to the Financial Statements

Note 7 - Other Foreign Receivables, Net

Other foreign receivables, consisting of principal and interest, as of September 30, 1998, are as follows:

	(In Millions)
	<u>1998</u>
Export Credit Sales Program	\$ 62
Office of General Sales Manager Program	42
Consolidated Rescheduled	<u>323</u>
Subtotal	427
Less Allowance for Doubtful Accounts	<u>(47)</u>
Total Other Foreign Receivables, Net	<u>\$ 380</u>

Note 8 - Cash

Cash consists of collections in transit. As of September 30, 1998, cash totaled \$78 million.

Note 9 - Commodity Inventories, Net

CCC's inventory as of September 30, 1998, is as follows:

	(In Millions)
	<u>Gross Value</u>
Commodity Inventories - Beginning of Fiscal Year	\$ 376
Acquisitions	295
Sales	(21)
Donations	(124)
Other Dispositions	(1)
Other Additions and Deductions	<u>6</u>
Commodity Inventories - End of Fiscal Year	531
Less Allowance for Losses	<u>(186)</u>
Commodity Inventories, Net	<u>\$ 345</u>

Commodity loan forfeitures during the fiscal year ended September 30, 1998, were \$63 million. Estimated future commodity donations and loan forfeitures are expected to be \$86 million and \$1 million, respectively.

An analysis of the change in inventory by commodity for the fiscal year ended September 30, 1998, is presented in Schedule B.

Notes to the Financial Statements

Restrictions on Commodity Inventory

In accordance with the Agricultural Act of 1970, as amended, CCC may establish, maintain, and dispose of a separate reserve of inventories for the purpose of alleviating distress caused by a natural disaster. These inventories may consist of feed grains, soybeans, and wheat. The reserve has been depleted. By statute, the amount held in reserve cannot exceed 20 million bushels.

CCC maintains a required commodity reserve for use when domestic supplies are so limited that quantities cannot meet the availability criteria under P.L. 480. In addition, if commodities that meet unanticipated needs under Title II of P.L. 480 cannot be made available in a timely manner, the Secretary may release up to 500,000 metric tons of wheat or an equivalent value of eligible commodities, plus up to 500,000 metric tons of eligible commodities that could have been released, but were not released, under this authority in prior fiscal years. Commodities are to be used solely for emergency food assistance in developing countries. As a result of the 1996 Act, the reserve may include rice, corn, and sorghum, as well as wheat. The reserve is established at 4 million metric tons and is replenished through purchases or by designation of commodities owned by CCC. The authority to replenish the reserve expires at the end of fiscal year 2002.

Note 10 - Property and Equipment, Net

Property and equipment are depreciated to their estimated salvage value on a straight-line basis. ADP equipment has a service life of 6 years, while non-expendable administrative property is depreciated over a service life range of 4 to 15 years. The salvage value, as a percentage of acquisition cost, is 10 percent for ADP equipment and 5 to 20 percent for non-expendable administrative property. Contractor-developed software costs are capitalized and depreciated over a period of 5 years, beginning with the first year the software is fully operational. Capitalized software development costs consist of activities associated with the establishment of a new core accounting system for CCC.

Property and equipment as of September 30, 1998, are as follows:

	(In Millions)		
	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Equipment	\$ 157	\$ (105)	\$ 52
Non-Expendable Administrative Property	45	(17)	28
Capitalized Software Development Costs	6	(*)	6
Other	<u>1</u>	<u>0</u>	<u>1</u>
Total Property and Equipment	<u>\$ 209</u>	<u>\$ (122)</u>	<u>\$ 87</u>

* Less than \$500 thousand

Notes to the Financial Statements

Note 11 - Resources Payable to Treasury

Resources payable to Treasury represents the obligated net resources of the pre-Credit Reform. This liability is increased (or decreased) by net gains (or losses) incurred in these funds. In addition, it is reduced by payments to Treasury of excess funds not needed for working capital.

The change in resources payable to Treasury for fiscal year 1998 is as follows:

	(In Millions)
	<u>1998</u>
Resources Payable to Treasury - Beginning of Fiscal Year	\$ 8,009
Repayment of Excess Funds to Treasury	(221)
Net Gain/(Loss) on Liquidating Funds	(1,066)
Other	<u>(39)</u>
Resources Payable to Treasury - End of Fiscal Year	<u>\$ 6,683</u>

Notes to the Financial Statements

Note 12 - U.S. Treasury Borrowings

U.S. Treasury borrowings, categorized as interest-bearing and non-interest-bearing notes, as of September 30, 1998, are as follows:

	(In Millions)
	<u>1998</u>
Borrowings - Beginning of Fiscal Year:	
Interest-Bearing	\$ 7,651
Non-Interest-Bearing	<u>768</u>
Total Borrowings Outstanding - Beginning of Fiscal Year	8,419
New Borrowings:	
Interest-Bearing	13,686
Non-Interest-Bearing	<u>8,452</u>
Total New Borrowings	22,138
Repayments:	
Interest-Bearing	(12,379)
Non-Interest-Bearing	<u>0</u>
Total Repayments	(12,379)
Interest Refinanced	7
Borrowings - End of Fiscal Year	
Interest-Bearing	8,965
Non-Interest-Bearing	<u>9,220</u>
Total Borrowings Outstanding - End of Fiscal Year	<u>\$ 18,185</u>

The total amount refinanced in fiscal year 1998 was \$11,318 million. Of that amount, \$11,311 million consisted of outstanding borrowings rolled over. Accrued interest rolled over into notes payable was \$7 million.

Interest on borrowings under CCC's permanent indefinite borrowing authority from Treasury is paid at a rate based upon the average interest rate of all outstanding marketable obligations (of comparable maturity date) of the United States as of the preceding month. Monthly interest rates ranged from 5.25 percent to 5.50 percent during fiscal year 1998. Interest expense incurred on these borrowings was \$285 million for fiscal year 1998.

The fiscal year 1998 interest rate on long-term borrowings under the permanent indefinite borrowing authority for the foreign assistance programs was 6.16 percent. This is the annual weighted average interest rate computed by OMB and used uniformly by all government entities, unless specific exemptions apply. A quarterly rate is determined by OMB and then a weighted average rate is calculated at yearend and applied retroactively to all borrowings from October 1 of the preceding year.

Notes to the Financial Statements

During fiscal year 1998, the terms for borrowings made for the Export Credit Guarantee programs were at least 10 years, while the repayment terms for the P.L. 480 program were 30 years. Interest expense incurred on borrowings associated with these programs amounted to \$111 million for fiscal year 1998.

Note 13 - Accrued Liabilities

Accrued liabilities as of September 30, 1998, are as follows:

	(In Millions)
	<u>1998</u>
Liabilities Covered by Budgetary Resources	
<u>Federal:</u>	
Reimbursable Agreement Activities	<u>\$ 5</u>
<u>Non-Federal:</u>	
Conservation Reserve Program	\$ 1,579
Other Accrued Expenses	284
Dairy Export Incentive Program	58
Noninsured Assistance Program	6
Dairy Production Disaster Assistance	7
Environmental Quality Incentives Program	5
1998 Livestock Indemnity Program	4
Wetlands Reserve Program	2
Export Enhancement Program	<u>1</u>
Total Non-Federal Accrued Liabilities	<u>\$ 1,946</u>
Liabilities Not Covered by Budgetary Resources	
Accrued Leave	\$ 41
Federal Employees Compensation Act Liability	<u>17</u>
Total Liabilities Not Covered by Budgetary Resources	<u>\$ 58</u>

To maintain consistency among the reporting entities in the Department, CCC liabilities reflect accrued leave and Federal Employees Compensation Act claims related to other Federal agencies' personnel who administer CCC programs. CCC funds will not be used to pay these liabilities. These liabilities will be funded by appropriations to these other Federal agencies.

Notes to the Financial Statements

Note 14 - Deposit and Trust Liabilities

Deposit and trust liabilities are amounts advanced to or deposited with CCC, on behalf of other entities. The balances, categorized as Federal and non-Federal, as of September 30, 1998, are as follows:

	(In Millions)
	<u>1998</u>
<u>Federal:</u>	
Funds Held for FSA Programs:	
Rural Clean Water	\$ 3
Emergency Conservation	110
Emergency Conservation (Supplemental)	25
Tree Assistance Program	20
Farm Loan Program	10
Expenses, FSA (County Offices)	<u>22</u>
Subtotal - FSA Programs	190
Advances from Agricultural Marketing Service and Food and Nutrition Service	377
Amounts Held for Federal Crop Insurance Corporation	7
Service Charges Withheld	14
Animal Plant and Health Inspection Service - Karnal Bunt	8
Other	<u>28</u>
Total Federal Deposit and Trust Liabilities	<u>\$ 624</u>
<u>Non-Federal</u>	
No Net Cost Tobacco	\$ 438
Other	<u>29</u>
Total Non-Federal Deposit and Trust Liabilities	<u>\$ 467</u>

Notes to the Financial Statements

Note 15 - Other Non-Federal Liabilities

Other liabilities consist primarily of unapplied receipts and deferred credits for peanut penalties assessed and unpaid cargo preference claims made to the Department of Transportation. The amount of current other liabilities as of September 30, 1998, was \$44 million. There were no amounts recorded for other liabilities considered to be non-current.

Note 16 - Contingencies and Commitments

CCC has commitments and contingencies as discussed below which are not otherwise reflected on the financial statements. Sales and other disposition commitments are not reflected in the accounts, but are considered in establishing allowances for doubtful accounts.

The 1996 Act replaced acreage reduction programs with production flexibility contract payments. These payments are made on a fixed payment schedule over 7 years. CCC paid \$6 billion during fiscal year 1998, with \$19 billion remaining to be paid over the next 4 years.

Under WRP, CCC purchases easements, based on agricultural value, to restore wetlands that have previously been drained and converted to agricultural uses, to protect, or to enhance wetlands on the property. WRP also provides an opportunity for landowners to receive cost share payments to restore, protect, or enhance a wetland without selling an easement. Program expenses for the fiscal year ended September 30, 1998, were \$64 million. At September 30, 1998, CCC's estimated future liabilities are \$183 million. The Corporation established an accrual in the amount of \$2 million for WRP in fiscal year 1998.

The Noninsured Assistance Program (NAP) was authorized as a CCC program under the 1996 Act and is a standing crop disaster aid program for crops that are not covered by catastrophic risk protection crop insurance. Program expenses for the fiscal year ended September 30, 1998, were \$23 million. It is estimated that CCC's annual payments for this program could range from \$90 million to \$140 million. The Corporation recorded an accrual in the amount of \$6 million for NAP in fiscal year 1998.

Notes to the Financial Statements

Commitments to acquire commodities represent the contract value of commodities not yet delivered under CCC purchase contracts. Commodity contracts amounted to \$462 million at September 30, 1998.

The Dairy Export Incentive Program is authorized under the Food Security Act of 1985, to facilitate export of U.S. dairy products. Under this program, CCC pays the exporter a bonus when necessary to enable an exporter to sell the product at a competitive world price. Program expenses were approximately \$103 million for fiscal year 1998. The accrued liability for fiscal year 1998 was \$58 million. On September 30, 1998, CCC estimated its future liabilities to be \$110 million.

The Corporation formerly operated approximately 4,500 grain storage facilities in the United States. To date, at approximately 110 of these facilities, Carbon Tetrachloride (a fumigant commonly used at grain storage facilities during that time) was discovered in ground water. As of September 30, 1998, the Environmental Protection Agency has designated CCC the potentially responsible party for ground water contamination near 4 of the 110 former CCC grain storage locations. CCC is undertaking site investigations at these and other former locations. USDA roughly estimates the total cost of this effort (including site inspection and cleanup, as well as operations and maintenance) to be \$40 million for the fiscal years 1999 through 2003. Of this amount, the Department is expected to provide funding of \$15 million under the ongoing department-wide hazardous waste management program. However, this amount is contingent on the amount actually appropriated to the USDA hazardous waste fund and subsequently allotted to CCC. Potential costs are extremely difficult to estimate until site investigations are completed. CCC intends to monitor the cost estimate and make revisions as necessary.

The Market Access Program was authorized by the Agriculture Trade Act of 1978, as amended, to encourage the development, maintenance, and expansion of commercial export markets for agricultural commodities through cost-share assistance to eligible trade organizations that implement a foreign market development program. CCC makes funds available to reimburse program participants for authorized promotional expenses. Program expenses for the fiscal year ended September 30, 1998, were \$92 million. At September 30, 1998, CCC estimated its future liabilities could range up to \$160 million. These amounts are not accrued because agreement on the actual use of the funds has not been reached.

The Export Enhancement Program encourages the commercial sale of U.S. agricultural commodities in world markets at competitive prices. Under the program, CCC and the exporter enter into an agreement in which CCC agrees to pay a bonus to the exporter in return for the exporter's submission of proof that the eligible commodity has been exported to the eligible country. Program expenses for the fiscal year ended September 30, 1998, were \$2 million. At September 30, 1998, CCC estimated its future liabilities could range up to \$1 million.

Through CRP, participants sign 10- to 15-year contracts to remove land from production in exchange for an annual rental payment. The participants also receive a one-time payment of 50 percent of the eligible costs of establishing vegetative cover on the reserve acreage. CCC estimates that the future liability for CRP annual rental payments through fiscal year 2009 is \$18 billion. This estimate is based on current program levels with no provision for cancellations or amendments to existing contracts. At September 30, 1998, accrued payments totaled \$1,579 million.

Notes to the Financial Statements

The following is a schedule of future minimum rental payments required under FSA operating leases for which CCC is directly liable. The leases can be canceled within a maximum period of 120 days.

<u>Fiscal Year ended September 30</u>	(In Millions)
1999	\$ 4
2000	2
2001	1
2002 and thereafter	<u>*</u>
Total	<u>\$ 7</u>

* Less than \$500 thousand.

Allocated rent expense net of reimbursements received on these leases was \$60 million for fiscal year 1998.

In the normal course of business, CCC becomes involved in legal disputes and claims for action against the Corporation. CCC, through the Office of the General Counsel, is vigorously defending these actions. In the opinion of CCC, claims and litigations asserted against the Corporation as of September 30, 1998, will have no material effect on the financial statements.

Note 17 - Net Position

Unexpended appropriations of the Corporation as of September 30, 1998, are as follows:

	(In Millions)
Unexpended Appropriations:	
Unobligated	
Available	\$ 3,706
Undelivered Orders	<u>(2,333)</u>
Total Unexpended Appropriations	<u>\$ 1,373</u>

Due to the fiscal year 1998 implementation of Statement of Federal Financial Accounting Standard No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, equity accounts formerly shown as Future Funding Requirements and Invested Capital were closed to Cumulative Results of Operations and are no longer presented separately on the Balance Sheet. The amounts closed to Cumulative Results of Operations were \$54 million and \$1 million, respectively. Because these amounts were included in the determination of Net Position for fiscal year 1997, there are no retroactive effects on Net Position due to this change.

Notes to the Financial Statements

Note 18 - Disclosures Not Related to a Specific Statement

Related Party Transactions

CCC's domestic programs are carried out primarily through FSA personnel. CCC issues checks for many FSA programs. During fiscal year 1998, FSA transferred to CCC \$589 million to cover checks written by CCC in the approximate amount of \$634 million. CCC recorded these transactions in its deposit and trust liability account.

The Corporation also provides and uses the services of other USDA agencies to carry out its authorities and responsibilities. AMS and the Food and Nutrition Service (FNS) fund the purchase of some commodities. In addition, AMS funds the purchase of commodities for the purpose of facilitating additional sales in world markets at competitive prices. As of September 30, 1998, the related deposit and trust liability for AMS and FNS was \$377 million.

CCC donates commodities for use under domestic feeding programs administered by FNS. The value of commodities donated for these domestic purposes, including related transportation and storage costs, for the fiscal year ended September 30, 1998, was \$25 million. In fiscal year 1998, CCC purchased and sold to FNS commodities worth \$3 million.

Under Credit Reform, CCC transferred \$4 million to FAS and an additional \$1 million to FSA during fiscal year 1998 for salaries and expenses of the foreign programs.

During fiscal year 1998, outlays under reimbursable agreements with other USDA agencies amounted to \$26 million. Interagency accruals, reflecting probable outlays for expenses incurred but not yet paid as of September 30, 1998, on reimbursable agreements amounted to \$4 million.

Amounts held on behalf of FSA and the Federal Crop Insurance Corporation for NAP and catastrophic insurance administrative fees collected totaled \$7 million as of September 30, 1998.

During the fiscal year ended September 30, 1998, the Corporation transferred \$31 million to the Animal and Plant Health Inspection Service (APHIS) for the eradication of animal and plant diseases, including karnal bunt. The related deposit and trust liability to cover payments for karnal bunt on behalf of APHIS was \$8 million as of September 30, 1998.

In addition, CCC transferred \$30 million to NRCS for the administration of WHIP, and \$10 million to the Risk Management Agency for the Dairy Options Pilot Program of which the Corporation established a receivable of \$9 million.

Notes to the Financial Statements

Custodial Activity

Custodial activity for the fiscal year ended September 30, 1998, is as follows:

	(In Millions)
Sources of Collection:	
Repayment of Farm Credit Loans	\$ 1,718
Warehouse Fees	3
Assessments and Penalties	21
Administrative and Other Service Fees	<u>15</u>
Total Revenue Collected	1,757
Disposition of Collection:	
Farm Service Agency	1,718
Amounts Retained by CCC	<u>39</u>
Total Disposition of Revenue	<u>1,757</u>
Net Custodial Activity	<u>\$ 0</u>

The majority of funds retained by the Corporation were received too late in the fiscal year to transfer to the proper agency.

Subsequent Events

Subsequent to the close of the reporting period, activities occurred that may affect the interpretation of the financial results of fiscal year 1998, as discussed below.

During the September 1998, Paris Club meeting, the eligible outstanding debt of the Government of Indonesia was restructured by its creditor countries. The Corporation rescheduled Indonesia P.L. 480 debt of \$102 million. Under the CCC GSM-102 Export Credit Guarantee Program, CCC had approximately \$30 million potentially eligible for this rescheduling. However, the Government of Indonesia informed CCC that the only letter of credit type debt eligible for rescheduling was for the financing of government projects. Since the Corporation's GSM-102 Program debt does not support such projects, it appears that none of the CCC debt will be included in the rescheduling. The Memorandum of Understanding (instead of the normal Agreed Minute) was signed in Paris on September 23, 1998. The State Department cleared and sent the bilateral agreement to post on October 26, 1998, for signature by both governments. Once this is accomplished, the P.L.-480 Implementing Agreement will be sent to the Government of Indonesia for signature.

Russia is currently in arrears under CCC GSM rescheduled debt totaling \$55 million. Russia stopped all payments to its creditors in July 1998. In addition, CCC has paid \$9 million in claims under the Russian private sector GSM program.

Notes to the Financial Statements

Due to the September 1998 hurricane in the Caribbean, the Government of the Dominican Republic (GDR) informed all creditors, including CCC, that it was suspending all payments after September 30, 1998, and through March 31, 1999. USDA has both outstanding P.L. 480 debt and GSM rescheduled debt with the GDR. The GDR has, as of October 31, 1998, arrears of approximately \$6 million for GSM rescheduled debt and \$9 million for P.L. 480.

USDA has not received P.L. 480 payments from Pakistan since June 1998. The P.L. 480 arrears, as of October 31, 1998, are approximately \$40 million. In addition, CCC has outstanding exposure under the GSM-102 Export Credit Guarantee Program of \$487 million. Pakistan is, however, seeking a Paris Club rescheduling as soon as it can reach an agreement with the International Monetary Fund. The tentative date for a rescheduling meeting with Pakistan is January 1999.

CCC paid two claims totaling \$8 million resulting from the closure of Guangdong International Trust and Investment Corporation, Hong Kong (Holdings) Limited (GITIC-HK). CCC's total potential exposure for GITIC-HK is \$30 million. The Corporation, in consultation with the Department of Justice, is reviewing its repayment options.

Note 19 - Disclosures Related to the Statement of Changes in Net Position

Prior period adjustments as of September 30, 1998, are as follows:

	(In Millions)
Receivable for Reimbursable Losses	\$ 9,269
Deferred Reimbursable Losses	<u>142</u>
Total Prior Period Adjustments	<u>\$ 9,411</u>

Due to the fiscal year 1998 implementation of Statement of Federal Financial Accounting Standard No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, the Corporation can no longer accrue appropriations for its realized and unrealized losses incurred, instead recognizing cumulative results of operations. Reimbursements received through appropriations are reflected as appropriated capital used in the year received. As a result of implementing the new standard, a prior period adjustment in the amount of \$9,411 million is recognized.

Notes to the Financial Statements

Note 20 - Earned Revenue

Earned revenue as of September 30, 1998, is as follows:

	(In Millions)
Earned Revenue from Non-Federal Parties:	
Interest Revenue	\$ 271
Inventory Operations	453
Farm Income Support	10
P.L. 480	275
Export Credit Guarantees	238
Other Program Revenue	<u>10</u>
Total Earned Revenues from Non-Federal Parties	\$ 1,257
 Earned Revenue from Federal Parties	 <u>110</u>
Total Earned Revenue	<u>\$ 1,367</u>

Note 21- Disclosures Related to the Statement of Budgetary Resources

The Statement of Budgetary Resources is a combining statement and, as such, intra-entity transactions have not been eliminated.

The net amount of budgetary resources obligated for undelivered orders as of September 30, 1998, is \$2,171 million.

The amount of available borrowing authority as of September 30, 1998, is \$13,308 million.

CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11, Preparation and Submission of Budget Estimates, of \$30 billion. The Corporation's borrowing authority is made up of both interest- and non-interest-bearing notes. These notes are drawn upon daily when disbursements exceed deposits, as reported by the Federal Reserve Bank's, their branches and CCC's financing office. When deposits exceed disbursements, CCC makes repayments on its notes. Deposits (financing sources) flowing through CCC's revolving fund include proceeds from the sale of CCC commodities, loan repayments, interest income and various program fees. CCC's notes payable under its permanent indefinite borrowing authority have a term of 1 year. On January 1 of each year, CCC refinances its outstanding borrowings, including accrued interest, at the January borrowing rate.

CCC may borrow interest-free up to the amount of its unreimbursed realized losses. For interest-bearing notes, interest is accrued at a rate based upon the average interest rate of all outstanding U.S. marketable obligations of comparable maturity date as of the preceding month.

Notes to the Financial Statements

CCC has a separate permanent indefinite borrowing authority for the P.L. 480 program and export credit program to finance disbursements on post-Credit Reform direct credit obligations and credit guarantees. In accordance with Credit Reform, CCC borrows from Treasury on October 1 for the entire fiscal year, based on annual estimates of the difference between the amount appropriated (subsidy) and the amount to be disbursed to the borrower. CCC may repay under this agreement, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest to the date of repayment. CCC is required to pay interest to Treasury on the last day of the fiscal year, based on the outstanding balance of borrowings in each financing fund. Interest is paid on these borrowings based on weighted average interest rates for the cohort to which the borrowings are associated. CCC earns interest from Treasury on the daily balance of uninvested funds in the Credit Reform financing funds. The interest income is used to reduce interest expense on the underlying borrowings.

No adjustments were made during the reporting period to budgetary resources available at the beginning of the year.

Under Credit Reform, CCC receives an annual appropriation to fund subsidy costs incurred under the P.L. 480 programs. In addition, CCC has permanent indefinite appropriation authority available to finance any disbursements incurred under the liquidating accounts that are not covered by sufficient working capital.

Unobligated budget authority is the difference between the obligated balance and the total unexpended balance and represents that portion of the unexpended balance unencumbered by recorded obligations. An appropriation expires on the last day of its period of availability and is no longer available for new obligations. Unobligated balances retain their fiscal year identity in an "expired account" for that appropriation for an additional 5 fiscal years. The unobligated balance remains available to make legitimate obligation adjustments, i.e., to record previously unrecorded obligations and to make upward adjustments in previously under-recorded obligations.

CCC's borrowing authority under its revolving fund is indefinite and, therefore, no unobligated balance carries forward to the following year.

The Statement of Budgetary Resources agrees with the SF-133, Report on Budget Execution. The Statement is, however, not directly traceable to the FMS-2108, Year-End Closing Statement. The differences are attributed to the fact that CCC's borrowing authority is incorrectly reported as definite on the FMS-2108 report. CCC is currently working with the OMB and Department of the Treasury to correctly restate CCC's borrowing authority as indefinite on the FMS-2108 report for FY 1999.

No contributed capital was received during the reporting period.

Notes to the Financial Statements

Note 22 - Disclosures Related to the Statement of Financing

The following provides a description of the "Other" categories on the Statement of Financing:

(In Millions)

Other Net Cost Components Not Requiring or Generating Resources During the Reporting Period:

Program Expenses	\$ (3)
Related Accruals	(88)
Apportioned Programs - Reversal of Prior Year Accrual	(117)
Miscellaneous	4
PL 480 - Reversal of Prior Year Lag Accrual	<u>(29)</u>
Total Other Net Cost Components Not Requiring or Generating Resources During the Reporting Period	<u>\$ (233)</u>